

# **MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

**October 19, 1999**

The Capital Projects and Bond Oversight Committee met on Tuesday, October 19, 1999, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Bob Leeper, Vice Chairman; Senators Tom Buford and Bob Jackson; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Arthur Gleason, Camille Bathurst, and Steve Casebeer, Kentucky Lottery Corporation; Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ, Department for Facilities Management; Captain John Witt, Kentucky State Police; Cicely Jaracz Lambert and Nick Schwendeman, Administrative Office of the Courts; David Bratcher, Cabinet for Economic Development; and Tom Howard, Office of Financial Management and Economic Analysis.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Lou Pierce, Lola Williamson Lyle, and Shawn Bowen.

Senator Leeper made a motion to approve the minutes of the September 21, 1999 meeting as submitted. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon reviewed correspondence items in members' folders, including the Kentucky Lottery Corporation's monthly financial status report for August 1999 and correspondence from Ken Walker, Vice President for Finance, Facilities and Data Management, Council on Postsecondary Education, reporting the Council's approval of two unbudgeted projects approved by the Committee at its September 21 meeting. Also included in members' folders were project status reports by the Finance and Administration Cabinet, Murray State University, the University of Kentucky, and the University of Louisville.

Chairman Haydon said at its September 21 meeting, the Committee reviewed a request from the Kentucky Lottery Corporation (KLC) to lease, with an option to purchase, new instant ticket validation equipment, known as Sci Scan 2000 Validation Terminals, from KLC's current instant ticket vendor Scientific Games, Inc. Because of the numerous questions Committee members had last month, the Committee asked and KLC agreed to come back this month for further discussion on the proposed acquisition. He then introduced KLC representatives: Mr. Arthur Gleason, President and CEO; Ms. Camille Bathurst, General Counsel; and Steve Casebeer, Vice President for Sales and Marketing.

Mr. Gleason said he was pleased to have the opportunity to appear before the Committee and referred to correspondence KLC had submitted to the Committee earlier. He said the equipment is needed for a new proposed instant ticket scratch-off game, which he referred to as a "probability game". He stressed that by offering this new game, KLC is not expanding beyond the traditional types of games it has offered in the past. The major difference in this new style of ticket is that players win or lose based on the spots they select to scratch off on the ticket. Each ticket is potentially a winning ticket if the right spots are selected. With previous instant ticket games, the ticket's status as either a winning or losing ticket was predetermined.

Mr. Gleason said, based on basic market testing, KLC has determined this product will have a high level of market acceptability by consumers. He said instant ticket sales have tapered off some during the last three years, and the new probability game will restore interest amongst players. He said when KLC was preparing its budget for this fiscal year, he became concerned as to whether they would be able to maintain the same level of annual sales. KLC was fortunate enough in each of the last two years to have very large Powerball jackpots, which significantly increased sales. He said, however, it is a much better strategy to have good steady baseline sales that are more predictable on an annual basis, as opposed to relying on Powerball ticket sales. Mr. Gleason said they anticipate generating \$15 million in additional sales by implementing the new probability game.

Representative Wayne made a motion to approve KLC's lease-purchase agreement for Sci Scan 2000 Validation Terminals. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Haydon said at its September 21 meeting the Committee reviewed and voted to not approve a request by the Public Service Commission (PSC) for a \$393,000 scope increase for its Office Building project. Chairman Haydon said the Committee recently received a letter from Finance Secretary John McCarty indicating he had authorized the scope increase for the PSC Building project without the Committee's

approval, pursuant to KRS 45.800. He indicated Secretary McCarty's letter was in the members' folders.

Chairman Haydon then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss six projects submitted by the Finance and Administration Cabinet.

Mr. Hintze first reported a \$180,000 allocation from the Capital Construction and Equipment Purchase Contingency Account for a feasibility study for facilities operated by the Cabinet for Health Services (CHS) at Eastern, Central, and Western State Psychiatric Hospitals.

In response to questions from Representative Wayne, Commissioner Armond Russ, Department for Facilities Management, said the feasibility study has already started; CHS is providing the programmatic staff for the study and the Department for Facilities Management is inspecting the physical structures. He said Luckett & Farley, as well as other consultants with experience in the hospital business, will be used to evaluate the facilities. Commissioner Russ said after the feasibility study is complete, the results will be given to CHS staff to develop recommendations for potential uses of the facilities.

In response to a question from Representative Wayne, Commissioner Russ said he did not know if Comprehensive Care Center staff are involved in the programmatic issues, but he would find out. Representative Wayne said the mental health professionals at the Comprehensive Care Centers would bring an important perspective to the study.

Representative Wayne noted that if federal military bases close, those facilities are to be offered to agencies that serve the homeless. He asked if a similar provision could be considered for the state facilities under study. Mr. Hintze said the feasibility study is more limited; the initial intent is to identify the current uses and the physical condition of the buildings. The results of the study could possibly feed into a more substantive policy review at a future date. However, Mr. Hintze said they do not expect to make any kind of decision on the ultimate disposition of the facilities based on the limited information gathered from the feasibility study until all available information is widely shared with Comprehensive Care Center providers, the Committee, and others who are involved in this process.

Representative Wayne made a motion to approve the contingency allocation for the CHS Feasibility Study. The motion was seconded by Senator Jackson and passed by voice vote.

Mr. Hintze next discussed a \$3,012,300 (15%) agency-funded scope increase for a Basic Radio Replacement System project for the Kentucky State Police. He said this project was authorized by the 1998 General Assembly for \$20,082,000 in bond funds. Prior to the 1998 authorization, state officials had originally planned to purchase an 800 Megahertz (MHz) trunked, digital system to serve the radio needs of state agencies, as well as local governments, but the price exceeded \$150 million and the project was cancelled. Mr. Hintze said after the 1998 General Assembly authorized the Basic Radio Replacement System, a "Request for Proposal" was issued for a 450 MHz digital radio system, and only one bid for \$43,000,000 was submitted by Motorola.

The Finance Cabinet and the State Police, with the assistance of the Governor's Office for Technology, carefully evaluated the bid to determine the essential components of the system. Through negotiations over several months, they reduced the project from an optimal system to a workable replacement system, superior to the current system and consistent with the authorized budget. As a result of those negotiations, the Motorola bid is now \$23,094,300. Mr. Hintze said the source of the additional funds will be surplus unbudgeted agency receipts.

Chairman Haydon indicated Captain John Witt, Lt. Colonels John Lile and Don Pendleton, Kentucky State Police; State Chief Information Officer Aldona Valicenti and David Ballard, Governor's Office for Technology; and Danny Shearer, Director for the Division of Contracting and Administration, Finance Cabinet, were available to answer questions concerning the project.

Senator Buford asked if the new radio system can be used to replace portable telephones for state employees. Captain Witt said the radio replacement system does not have the capacity to serve as portable telephones.

In response to a question from Representative Marcotte, Captain Witt said this system is a state of the art radio system; all of the items eliminated from the original Request for Proposal can be added at a later time.

Senator Leeper said the current system had "dead spots" where in some locations officers cannot make contact through the radio system. He asked if the dead spots would be completely eliminated with the new radio system. Captain Witt said it is not technically possible to completely eliminate dead spots, although the situation will be dramatically improved. He said it is not practical with a reasonable amount of money because a 2-way radio system is more obstacle sensitive than it is rain sensitive, and it would not be feasible to build enough transmitter stations to completely cover the state.

Senator Leeper said this is one of his greatest concerns because when officers are alone and their radios are not working, they are at much greater risk. He asked how much

better this new radio system will be. Captain Witt said the Cabinet has reviewed propagation studies and the projections that the vendor has given as to what the coverage will be. The vendor's projection of coverage will be used to measure contract compliance. Captain Witt said there should be marked improvement in the coverage; also, within the budget, they have the ability to add 11 additional stations.

In response to questions from Senator Buford, Mr. Hintze said that by the 1998 Session, it was recognized there would never be a budget large enough to accommodate an 800 MHz radio system. He said the Administration then decided to do what they could to prioritize needs. Captain Witt said the difference between a 450 MHz radio system and an 800 MHz radio system is the 800 MHz radio system would provide two-way voice communication for all of state government and agencies outside of state government, whereas the 450 MHz radio system is strictly a Kentucky State Police radio system with a few noted exceptions.

Senator Buford made a motion to approve the purchase of a radio replacement system for the Kentucky State Police. The motion was seconded by Senator Jackson and passed by voice vote. Representative Wayne abstained from the vote, citing a possible conflict of interest because of a financial interest in Motorola.

Next, Mr. Hintze discussed a \$400,000 (7.4%) scope increase for the Madisonville Community College Science/Technical Classroom Building project. Mr. Hintze said this project was authorized by the 1998 General Assembly for \$5,400,000. The scope increase will be funded with private funds and will be used to meet the low construction bid.

Representative Wayne asked if the private funds for this project have been certified in writing. Mr. Hintze said the funds have been certified verbally, but formal written certification will be obtained and submitted to the Committee.

Senator Jackson made a motion to approve the cost overrun for the Madisonville Community College Science/Technical Classroom Building project, pending written certification of the private donation. The motion was seconded by Senator Leeper and passed by voice vote. The revised project scope is \$5,800,000.

Mr. Hintze then reported the lease/purchase of two high-volume laser printers for use by the State Treasurer's Office. Funds from the Technology Trust Fund will be used to lease two printers (with an option to purchase over a five-year period) at a total cost of \$475,450 and an interest rate of 4.79%.

Chairman Haydon said no further action was required for this item.

Mr. Hintze next reported two allocations from the Statewide Deferred Maintenance Pool to the Department of Facilities Management to fund projects in Frankfort: an allocation of \$68,500 to increase the scope of a Fuel Tank Replacement project for the Cabinet for Health Services, and an allocation of \$60,000 to fund the Capital Plaza-Civic Center Repairs project.

Chairman Haydon said no further action is required on reports of allocations from the Statewide Deferred Maintenance Fund.

Chairman Haydon introduced Ms. Cicely Jaracz Lambert, Director, Administrative Office of the Courts (AOC); and Mr. Nick Schwendeman, General Manager for Facilities, AOC, to discuss a project report for the Lyon County Court Facility project.

Mr. Schwendeman reported on action taken by the Court Facilities Standards Committee at its meeting on October 1, 1999 regarding the Lyon County Court project. He indicated representatives from CMW Architects; Codell Construction, serving as project construction manager; Ross Sinclair Associates, the financial agent; and the Lyon County Attorney, Mr. Marvin Wilson, were available to answer questions.

Mr. Schwendeman said at its October 1 meeting the Court Facilities Standards Committee approved an allocation from the Court Facility Contingency Fund of up to 15% (\$55,400) of the authorized annual use allowance for the Lyon County Court Facility project. He said one of the reasons the project, now 35% complete, had incurred a cost overrun, was that the original project budget had assumed Kentucky Association of Counties (KACO) financing, which does not require a debt service reserve. Mr. Schwendeman said later a decision was made not to use KACO financing, and a debt service reserve was then required. In addition, once all of the construction packages were bid, the total of the bids was higher than estimated and value engineering was applied and construction costs were reduced by \$424,292. However, Mr. Schwendeman said there was still a project shortfall, and Lyon County officials sought the allocation from the Contingency Fund. The authorized maximum annual use allowance for Lyon County, as approved by the Court Facilities Standards Committee, is \$424,700.

In response to a question from Representative Wayne, Mr. Schwendeman said AOC is meeting with counties routinely to review cost estimates and to assure that all costs have been accounted for. He said because of value engineering efforts, AOC is making every effort to keep the cost of court projects as low as possible.

Chairman Haydon said also enclosed in members' folders were the AOC quarterly status report on authorized capital projects; a recent amendment of AOC's Six-Year Capital Plan; and a policy recommendation adopted by the Capital Planning Advisory

Board at its October 12, 1999 meeting concerning court facility planning, funding, and oversight.

Next, Mr. David Bratcher, Cabinet for Economic Development, reported one new economic development bond (EDB) grant in the amount of \$2,625,000 to the Lexington Industrial Foundation/Lexington-Fayette Urban County Government (LFUCG). The grant is to be used to assist Lexmark in construction of a corporate research and development facility in Fayette County.

Senator Buford made a motion to approve the EDB grant for the Lexington Industrial Foundation/Lexington-Fayette Urban County Government. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Tom Howard, Deputy Director, Office of Financial Management and Economic Analysis (OFMEA), presented one new bond issue report: Kentucky Economic Development Finance Authority (KEDFA) Adjustable Rate Demand Health Care Facilities Revenue Bonds, Series 1999 for the Baptist Convalescent Center, Inc. project (\$10,000,000).

Representative Wayne made a motion to approve the new KEDFA bond issue. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Howard then presented one follow-up letter for a previously approved bond issue: Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Third Series A (\$138,000,000).

Chairman Haydon said this bond issue was approved at an earlier Committee meeting and no further action was required.

Mr. Howard said enclosed in members' folders was the Semi-Annual Report of the Kentucky Asset Liability Commission. In summarizing the report, he said the economy remains very strong, inflation fears are rampant, interest rates are rising, lower General Fund balances have hurt investment income, and capital construction activity is picking up. He said the investment strategy used by the Asset/Liability Commission has yielded approximately \$17 million in value added to the Commonwealth since the Commission's inception in May 1997. He said also enclosed in members' folders was the Annual Report of Bonds Outstanding.

The final item Mr. Howard presented was seven new School Facilities Construction Commission (SFCC) bond issues, none of which required a tax increase: Bourbon County, Fleming County, Grayson County, Hopkins County, Kenton County, Martin County, and Pike County.

Senator Buford made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Wayne and passed by voice vote. Because of a possible conflict of interest, Representative Damron abstained from the vote.

Chairman Haydon said there were also seven locally funded school bond issues submitted to the Committee for review this month, none of which required a tax increase: Boone County, two for Dayton Independent (Campbell Co.); Jackson County, Marshall County, Montgomery County, and Williamstown Independent (Grant Co.). He said all required information concerning these issues had been submitted, and no further action on these bond issues was required.

Chairman Haydon said the next Committee meeting is scheduled for November 16, 1999 at 1:00 PM in Room 125 of the Capitol Annex. The Committee agreed to move its December meeting from December 21 to December 14.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 2:05 PM.